VZCZCXRO7896
PP RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHSB #0911/01 2781225
ZNR UUUUU ZZH
P 051225Z OCT 07
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 1985
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000911

SIPDIS

SENSITIVE
SIPDIS

STATE/EEB/TPP/ABT GARY A. CLEMENTS,
COMMERCE/ITA/OTEXA MARIA D'ANDREA
USTR CAROYL MILLER
AF/S S.HILL

E.O. 12958: N/A
TAGS: ECON ETRD KTEX ZI
SUBJECT: TEXTILE AND APPAREL PRODUCTION AND EMPLOYMENT IN
ZIMBABWE

REF: SECSTATE 114799

------
Summary
-------

¶1. (U) The competitiveness of Zimbabwe's textile and apparel sector has been highly compromised by an unstable macroeconomic environment characterized by persistent foreign currency shortages, obsolete equipment, power outages, fuel shortages and hyperinflation. While production and employment are in decline across the sector, there are several extremely well-managed major manufacturers, especially in the apparel sub-sector, that are making major inroads into the South African market, in particular. The sector has not eperienced capital flight and the leading companies ppear ready to plow investment into their operatons when the economy stabilizes. End Summary.
--------------------------------------
A Dearthof Official Quantitative Data
-------------------------------------

¶2. (SBU) Despite repeated inquiries, post was unable to obtain any data on textile and apparel production or trade from the relevant office of the Ministry of Industry and International Trade. Consequently, the information we gathered in response to reftel is based solely on interviews with the two trade associations that represent the industry ) the Zimbabwe Textile Manufacturers Association (ZITMA), and the Clothing Manufacturers Association (CMA) - and with leading companies in each sub-sector.

----------------------------
Overall Declining Production
----------------------------

¶3. (U) Zimbabwe's prolonged economic contraction has taken its toll on the textiles and apparel sector. The textile sub-sector, in particular, has scaled down operations in the past years, while apparel appears to be internationally, or at least regionally, competitive. Indications are that most apparel firms are operating well below capacity but above the manufacturing sector average of 33.8 percent capacity. One major manufacturer told us his plant was working at 40 percent capacity. Low capacity utilization is a consequence of worsening foreign currency shortages, inadequate raw material supply, pervasive power outages, and fuel shortages in Zimbabwe. Interlocutors agreed that the number of players in the two sub-sectors has declined since the 1990s, although they could not provide quantitative data.

---------------------------------------------- ------
Textile Sub-Sector Subsidizes Exports To Earn Forex
---------------------------------------------- ------

¶4. (U) The textile sub-sector appears to sell the bulk of its output on the domestic market, as exports are, by and large, not especially competitive. Export prices are lower than domestic prices and domestic sales heavily subsidize exports to South Africa. Despite low prices, Zimbabwean textile manufacturers continue to export as a means of earning foreign exchange, at any cost, to import the spare parts and chemicals that are unavailable locally. (Note: Regulations require exporters to relinquish 35 percent of their foreign exchange earnings to the Reserve Bank of Zimbabwe at the official exchange rate ) an effective steep export tax. Prior to the Monetary Policy Statement of October 1, 2007, they had to give up 40 percent of their foreign currency earnings.)

---------------------------------------------- ----------
Apparel - Export Driven, But Up Against Commercial Risk
---------------------------------------------- ----------

¶5. (SBU) The Clothing Manufacturers Association (CMA), on the other hand, explained that Zimbabwean manufacturers largely depend on the export market to make money even though they receive lower prices than their competitors. Foreign buyers, unsure whether Zimbabwean manufacturers will deliver the goods, impose a heavy discount to compensate for the perceived commercial risk. As a result, orders have been declining on a year-on-year basis at the aggregate level. At the individual level, however, two major firms that we interviewed, and that have a strong record of exporting to



the U.S., told us that their export orders to South Africa have increased in the past year. The two firms ) one in Bulawayo and one in Harare ) are known to be exceptionally well managed, with strong capital bases, particularly good labor relations, and a strong social commitment

----------------------------------------------
U.S. Restrictions Benefit Zimbabwe Indirectly
----------------------------------------------

¶6. (SBU) Were Zimbabwe eligible for the trade benefits of AGOA, it undoubtedly would have the capacity and expertise to increase its apparel exports to the U.S. Interestingly, Zimbabwe has benefited indirectly from the introduction of restrictions by the U.S. and EU on the importation of textiles and apparel from China. As South Africa, under AGOA, supplants China and exports an increasingly large proportion of its textiles and clothing output to the U.S., Zimbabwean manufacturers have filled the gap in the South African domestic market, albeit against stiff competition from Chinese suppliers. According to ZITMA and CMA, Zimbabwe's close proximity to South Africa balances out to some extent the sub-economic (i.e. subsidized) pricing of Chinese products on the South African market. One of the most competitive apparel manufacturers interviewed told us that export quotas on Chinese products in the Southern African Customs Union (SACU) in general, and South Africa in particular, had helped the firm achieve an export-to-output ratio of 95 percent. In fact, the company expected to double its exports to South Africa in 2008. On the other hand, the company managing director told us that his firm had lost a major contract with a leading U.S. apparel chain when the buyer decided to disassociate itself from Zimbabwe for political reasons.

-------------------------------------------
The Struggle to Maintain Competitiveness...
-------------------------------------------

¶7. (SBU) Both associations maintained that, aside from the recent introduction of duty payable in foreign exchange, the

GOZ had done nothing to improve the competitiveness of the sector. In fact, CMA said that the government continued to issue export licenses to lint producers instead of promoting the processing of lint into higher-value products by local textile manufacturers. Both associations and all companies visited called for more protection of domestic manufacturers against cheap imports. Moreover, both associations underlined the negative effect of the country's deteriorating electric-power and water infrastructure on their members' international competitiveness.

¶8. (SBU) In the meantime, CMA explained that, to cope, its manufacturers tapped into the foreign exchange black market to import essential inputs. In addition, about half of ZITMA's members had reorganized production to reduce waste, and re-capitalized to improve product quality.

---------------------------------
... And the Battle to Retain Labor
---------------------------------

¶9. (U) Most firms interviewed had laid off workers but maintained capacity to be able to re-hire quickly in a recovery. According to CMA, employment in the clothing sector had fallen from 24,000 in 2000 to 14,000 in 2007, against a capacity to employ 35,000 workers. ZITMA was unable to provide comparable data for the textile sector.

¶10. (U) There are no programs in place to deal with dislocated workers aside from the standard retrenchment package. However, the most successful firms in the apparel sub-sector have introduced training programs to address the problem of skill loss as skilled labor was leaving the country en masse. Executives told us they could train a worker to a high level of competency in three weeks.

¶11. (SBU) Addressing the effect of globalization on labor market flexibility, textile industry executives pointed out that the labor market was already very flexible, particularly in terms of the black market exchange rate; real wages have fallen substantially. To stem the tide of emigration, CMA has taken the proactive stance of paying wages that are well above the agreed minimum for the sector (though still far below the Poverty Datum Line). Wages are also generally



supplemented by the provision of staple food, water (in drought-stricken Bulawayo), and transportation and housing allowances. The Association maintained that the industry was always the first to settle in collective bargaining agreements. In fact, it proposed linking wage increases to changes in the consumer price index (CPI) as early as February 2007. Most CMA members also pay bonuses for higher productivity, which has improved output.

------------------------------
Yet No Signs of Capital Flight
------------------------------

¶12. (SBU) Notwithstanding all the challenges, capital, including that of Asian and Jewish investors (most of whom are Zimbabwean citizens) does not appear to be fleeing the sector. While the managing director of one of the major apparel firms visited told us he was emigrating to the U.S. at the end of 2007, he was not contemplating divestment. On the contrary, he will act as marketing director for the company in the U.S. and expects exports to the U.S. to rise from the current 40 percent to 70 percent within a year. In the meantime, he has put in place a management structure in Zimbabwe that will maintain local operations going forward.

¶13. (SBU) Overall, the apparel manufacturers believe that the local textiles sub-sector should improve its product range in order to cut down on imports of "technical" fabrics, especially those that are water- and blood-proof and used for safari clothing. One of the textile manufacturers called his

own industry "a joke" because of its dependence on obsolete equipment and its narrow expertise in manufacturing heavy cotton fabrics for the production of worker clothing. The sub-sector needs to re-equip to improve its competitiveness. Statistics show that in 2006, Africa's share of new knitting machinery purchases was just over 1 percent, with Asia accounting for over 88 percent. Of the 1 percent attributable to Africa, Egypt and South Africa accounted for more than 75 percent, implying that Zimbabwe has a long way to go before achieving the quality of fabrics demanded by the clothing manufacturers. Both associations see a need to liaise more closely going forward given the strategic nature of the textile and apparel industry in Zimbabwe as the second-largest contributor to the manufacturing sector.

DHANANI